

MEMORANDUM FOR: Executive Officer, OL

SUBJECT : Analysis of Direct Funding Option as it  
Impacts on Materiel Management Procedures

REFERENCE : PPA/PRA Study Working Group

1. The contents of this paper are confined to an analysis of the direct funding option as it impacts on the supply management procedures currently in effect or anticipated to be brought on line under the Materiel Resources System (MRS).

2. The conversion of the Agency's supply system from a partially automated to a fully automated mode will expose many unknowns to be resolved in developing procedural applications. While we are well into Phase I of this change in system methodology, its complete implementation will take several years. Procedural design for the recording of supply actions must provide for information retrieval which will permit effective materiel management. It is, therefore, necessary to recognize that today's basic system design will be subject to constant up-date during the total implementation time frame. Accordingly, all participants must accept the condition that application of a direct funding concept to a newly designed, automated and only partially implemented MRS will be fraught with frustrations.

3. Our systems analysis is concerned primarily with the necessary elements of data input to the Inventory Control System (ICS) which will produce the information required to manage our materiel resources and provide sufficient data to appropriately control financial resources. Our current property control systems rely on the following automated programmed capabilities on line or anticipated within 90 days.

- a. Retrieval of stock action history and status.
- b. Significant transaction history.
- c. Programed error detection.
- d. Programed issue action.

Enhancements to the system can provide whatever interface necessary to be compatible with the materiel management system in effect at the time.

4. Under the current PPA/PRA method of funding materiel procurement and issue, the using element has direct responsibility for the entire budget process. Those using elements having materiel management responsibility along with funding responsibility find our current PPA/PRA system inhibiting in its application and certainly not responsive to their needs, (Office of Technical Service (OTS), Allocation 61). Under the direct funding concept, each technically or operationally controlled allocation should follow a similar budget process and have the management responsibility noted above. The single user premise (OTS and Office of Communications (OC)) would not necessarily follow even though materiel management would be vested in those elements having authority for the expenditure of funds. Since items of materiel would be budgeted for by the office exercising operational and technical control, all medical items, for example, should be funded and managed by Office of Medical Services (OMS); conversely, all items common to two or more components should be budgeted for by the office having primary interest, i.e., communications equipment utilized by OC and other components should be funded and managed by OC. A particular radio used by OC, Office of ELINT, Division D (DIVD), etc., would fall into this category. Separate allocations could be assigned to each using component similar to what we are doing now. The present five divisions of Materiel Management (OTS, OC(26), OC(other), DIVD, and Supply Division (SD)) would more than double under this concept. A further responsibility will stem from a division of budget responsibility for those items carried in stock and those requirements which must be satisfied through direct procurement methods. Non-stocked items will require fund authorization by the user, while stocked materiel will be provided by the item manager without cost to the user.

The procedural implementation of a highly structured budgeting process should recognize that each property category identified as distinctive, either by operational application or end use, requires a single manager. This manager would be responsible for budgeting for funds required to meet total Agency materiel requirements to be supplied from stock. Even the more sophisticated equipments, if used by more than one component, should require the designation of a single manager. The delineation of stock and non-stocked items, and the attendant separation of funding responsibility noted above, would apply to each such division of responsibility.

Recognizing that a pure direct funding concept may, at least initially, be required to yield somewhat in order to achieve system practicality, we have developed a potential separation of the materiel categories which should be recognized; the cognizant office

which should exercise budget and property management responsibilities, and those categories which feasibly could be grouped under centralized Office of Logistics (OL) control.

<u>Materiel Group</u>	<u>Office of Primary Interest</u>	<u>Centralized OL Management</u>	
<b>Communications</b>			
Clandestine	OC	No	
Staff	OC	No	
Crypto	OC	No	
General	OC	Yes	
Special	DIVD	No	
		No	25X1
<b>Audio/Visual</b>			
	OTS	No	
<b>Ordnance</b>			
Contingency		Yes	25X1
Other		Yes	
Security Equipment	Office of Security (OS)	Yes	
Medical Materiel	OMS	Yes	
Paramilitary		Yes	25X1
Duplicating Equipment and Microfiche	Information Systems Analysis Staff (ISAS)	Yes	
General	OL	Yes	

5. The computer based materiel management system (ICS) will experience little change if we convert from our present Financial Property Accountability (FPA) system to some other form of financial property control. We do not anticipate any change in Financial Resources System (FRS) requirements if PRA controls are eliminated. The budget process will be an added function and workload for each separate management component, under a partially centralized budgetary control used in lieu of PRA controls. This again emphasizes

the point that stock budgeting will be the responsibility of materiel group managers while budgeting for other acquisitions (directs) will be accomplished by the users.

We have made an in-depth comparison of SD stock funding responsibilities under the present FPA system and those considered to apply to the direct funding concept.

While we currently analyze materiel requirements and develop procurement plans accordingly, these actions are concurrent with the expenditure year in the budget cycle and have no association with budget and out years in the cycle. A budget procedure such as that employed by OC would be necessary especially when non-expendable equipment and common items supporting new stock equipment buys of other components are concerned. The OC employs the following procedure in conjunction with budgeting for clandestine communications equipment (Allocation 26). Upon receipt of the budget call, OC requires each DDO component to provide a list of requirements and includes the dollar amount in their budget submission. Both OC and DDO defend these requirements in budget hearings. It then becomes readily discernable that at a minimum there would be three identifiable budget processes:

- a. Single user, single budget, and highly restrictive technical materiel. (OTS-Allocation 61)
- b. Multiple user, single budget, and highly restrictive technical materiel. (OC-Allocation 26)
- c. Multiple user, single budget, and generalized materiel. (OL)

The stock versus direct procedure will require the user to acquire a definitive knowledge of what is stock and what is not since only those non-stocked items need be included in his budget. Such a procedure will require the user to definitize his budget and eliminate any uncertainty as to what will be furnished by the "Manager" without cost and what he must pay for. On the other side of the coin, the flexibility of introducing new items into stock and purging slow or non-moving items from it will be restricted to budgetary limits and the time frames of those limits. Admittedly, this may not create a serious problem with small, inexpensive, common items; but it is believed that, in areas of more consequential materiel, a presently insurmountable communications gap between the manager and the user must be closed. Split materiel budgets will not enhance a progression toward zero base budgeting; as a matter of fact, it would appear to have a deleterious effect. The replacement of "hard copy" catalogs by microfiche will work an additional hardship on all levels of budget contribution until microfiche and readers are more

widely distributed, a costly exercise with much yet to be done. Another area of impact on our current materiel management system will be the funding of initial stocks of new items. Under certain circumstances, new items later become common and funded through a common manager. Budget restrictions will inhibit this procedure.

6. A review of all currently generated hard copy reports, together with those information requirements satisfied by terminal query, revealed the following statistics:

- a. Hard Copy Printouts (number of reports)
  - (1) Multiple users (includes OL) 19
  - (2) Logistics only 15
  - (3) Others 14
  - 48
- b. Terminal Query (Hard copy on request)
  - (1) Multiple users (includes OL) 14
  - (2) Logistics only 5
  - (3) Others 10
  - (4) Logistics-inactive 12
  - 41

Data elements required to maintain the above computer based information system total nearly 75 at the present time. These data can generally be categorized as follows:

- a. Control data (Management)
- b. User data (Requisitioner)
- c. Action data (Requirement)
- d. Internal data (System)

Implementation of any financial based management system will not negate the need for this information. As a matter of fact, financial controls envisioned by the FRS may well increase the input requirements of ICS.

7. All transactions affecting the property records and the general ledger accounts are presently introduced into the automated system through the use of a Transaction Analysis Code (TAC).

There are 39 TAC's utilized with the ICS as it interfaces with the current FPA system. Conversion to a modified PPA/PRA or Direct Funding procedure would have little or no effect on the present system since the majority of transaction coded data is FPA oriented. For example, insofar as property management is concerned, many transaction coded issues could be consolidated using a single code under either modified PPA/PRA or Direct Funding if it were not for input requirements in the maintenance of finance general ledgers.

8. In final analysis, the impact on supply management procedures in a conversion to modified PPA/PRA or Direct Funding would be minimal. Each materiel group manager would of necessity have to accept a larger role in the entire process since he would fall heir to the budget responsibility Agency-wide for the stock portion of his commodity group. The SD would continue to provide common services in a format permitting each separate Direct Funding management component to interface with the automated system as required.

  
Deputy Chief, Supply Division, OL

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Supply Division Comments

5. Anticipated funds limitation.

6. Future trends in the Intelligence Community, including trends in national policy and improvements to the state of the art.

Naturally, materiel usage is of vital concern when dealing with any specific period of time covered by budget estimates with the ultimate judgment impacting on "what to buy." At the same time, continued investment in inventory for newly developed equipment and significant increases in inventory levels are of concern.

III RECOMMENDATION

It is feasible at the present time to accept inventory budgeting for "captive" stock and to eliminate the processing of all direct purchases through the FPA (PPA/PRA) system. Therefore, it is recommended that inventory budgeting for "captive" stock be incorporated into the Study Group's proposal titled "Modified PPA/PRA" and that this system be adopted.

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Chief, Supply Division, OL

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also apply if we removed the processing of direct purchases through the FPA system as envisioned in the "Modified PPA/PRA" system. It is an accepted fact that any supply management system must include effective property control and utilization criteria. It is extremely doubtful that the "Direct Funding" concept would enable an acceptable level of control and materiel utilization to be established by reason of the fact that neither initial issue nor reissue would cause an appropriation charge. Any degree of control and utilization of materiel under "Direct Funding" would require clearly defined and practiced (enforceable) supply discipline measures. Lack of control on initial issue would most assuredly result in indiscriminate materiel drawdown. Further, reissue would, of course, be dependent on the materiel being returned when no longer needed. The only meaningful control on property is money in the hands of the requisitioner. A system of price adjustment based on the condition of an item would be far more enticing from a user's point of view.

B. Aside from the materiel management aspects, or lack thereof, in the "Direct Funding" concept, there is an additional burden that would be placed upon each budgeting component: i.e., each office would, in the preparation of its budget, be required to "guess" at what it must fund and what would be funded for it. Acceptance of inventory budgeting for "common" stocks (a requirement for all elements if the "Direct Funding" proposal is implemented) would not retain for us the measure of control and utilization we now have, much less achieve any anticipated improvement. SD cannot effectively discharge its responsibility of maintaining a viable, responsive supply system and at the same time permit indiscriminate drawdown. Today, we look at "unfunded PRA" and its effect on our materiel management system with a jaundiced eye. Under the "Direct Funding" concept, we feel we would be subscribing to such a system as a matter of common practice.

C. The current budgeting process can accept inventory budgeting where "captive" stocks are concerned. There are, as you know, many elements which must be considered in the development of a budget estimate. Briefly, they include, but are not limited to:

1. Active projects in the expenditure, budget, and out years.
2. Materiel usage during the expenditure, budget, and out years.
3. Demands experience.
4. Procurement leadtimes to include fabrication.



4. Budget Responsibility: Monetary estimates (budgets) prepared in response to authoritative Program Calls by the user.

5. Inventory Budgeting: Pertains only to "captive" stock.

6. Requisitioning Authority: That authority vested in components allowing appropriately allotted monies to be converted into personal property.

7. Direct Procurement: Requests for materiel not maintained in the Agency's "stock system" for which procurement action must be undertaken which results in a direct fund charge to the requisitioner (user).

8. Stock Allocation: Stocks reserved for a particular Agency component or project. (It does not pertain to materiel management, technical cognizance, or budget responsibility.)

B. After reviewing the recommendations made (in draft) by the PPA/PRA Study Group, we feel that the disadvantages of our present system and the extensive system revision required to accept a completely capitalized or revolving fund procedure does, at least at present, eliminate them from further consideration. Thus, only the "Direct Funding" and "Modified PPA/PRA" proposals are considered responsive to the Study Group charter. However, the "Revolving Fund" alternative and its interface with current and proposed ADP procedures, as they pertain to the property system, should be evaluated in depth with a view towards future consideration for adoption.

## II DISCUSSION

A. As stated earlier, the status quo is an acceptable alternative; but, by the same token, not all of the deficiencies of our present system automatically translate as advantages for "Direct Funding." In the current atmosphere of "Resource" and "Zero Base" budgeting, estimates of future monetary needs will require looking more to the future with less credence put on past action. Notwithstanding, there are very definite advantages to "Direct Funding," albeit most of which will accrue to the maintenance of financial accountability. Conversely, eliminating the recording of direct purchases in the Financial Property Accounting (FPA) system will very definitely bring manpower savings to SD in the area of transaction coding and tape punching of machine input data. This saving, of course, would

MEMORANDUM FOR: Deputy Director of Logistics  
SUBJECT : Recommendations of the PPA/PRA Study Group-  
Supply Division Comments

I GENERAL

A. This paper discusses the Supply Division (SD) position vis-a-vis the recommendations made by the PPA/PRA Study Group and contains a recommendation for your approval in the concluding paragraph. Any analysis of alternatives to our present PPA/PRA system demands that certain basic elements of procedural guidance be accepted if we are to maintain the integrity of the system of accountability adopted. They are defined as follows:

1. Stock:

a. Captive - Those items for which budget responsibility, materiel management, technical cognizance, and authority for drawdown are vested in one office.

b. Common - Those items which are utilized by two or more requisitioning activities (users) with materiel management vested in a single component and technical cognizance exercised by an appropriately designated office. Budget responsibility rests with the requisitioner (user).

2. Materiel Management: Quantitative accountability maintained through an adequate system of transaction and inventory control either manually or semiautomatically (GIM II/ICS).

3. Single Manager: Materiel management of specific items or classes of items in an appropriately designated manager. (This does not include budget responsibility or technical cognizance, although these elements may be assigned to a single manager.)